

HERSHEY'S

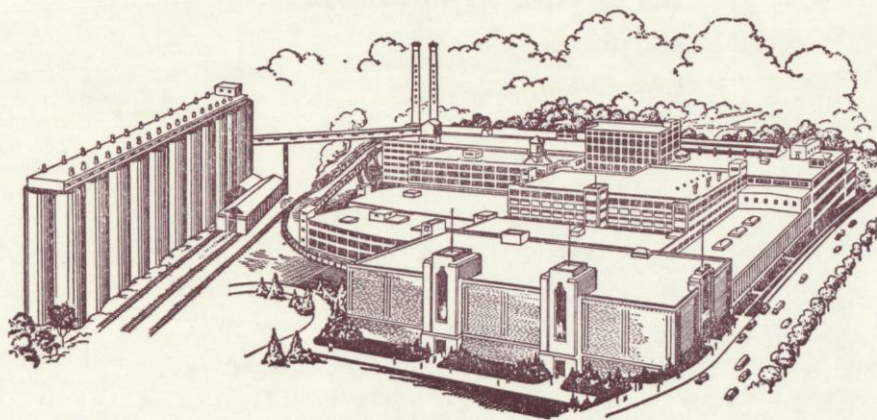


ANNUAL REPORT
DECEMBER 31, 1961

HERSHEY

CHOCOLATE CORPORATION

HERSHEY, PENNSYLVANIA



Executive Offices and Manufacturing Plant

BOARD OF DIRECTORS

S. F. HINKLE, *Chairman*

J. HEMPHILL

W. E. SCHILLER

H. S. MOHLER

J. B. SOLLENBERGER

W. H. RADEBAUGH

A. R. WHITEMAN

OFFICERS

S. F. HINKLE, *President*

W. E. SCHILLER, *Vice President and Treasurer*

R. L. UHRICH, *Secretary*

L. W. SIMMONS, *Comptroller*

TRANSFER AGENT

FIRST NATIONAL CITY BANK
NEW YORK

REGISTRAR

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

AUDITORS

ARTHUR ANDERSEN & CO.
NEW YORK

To the Stockholders:

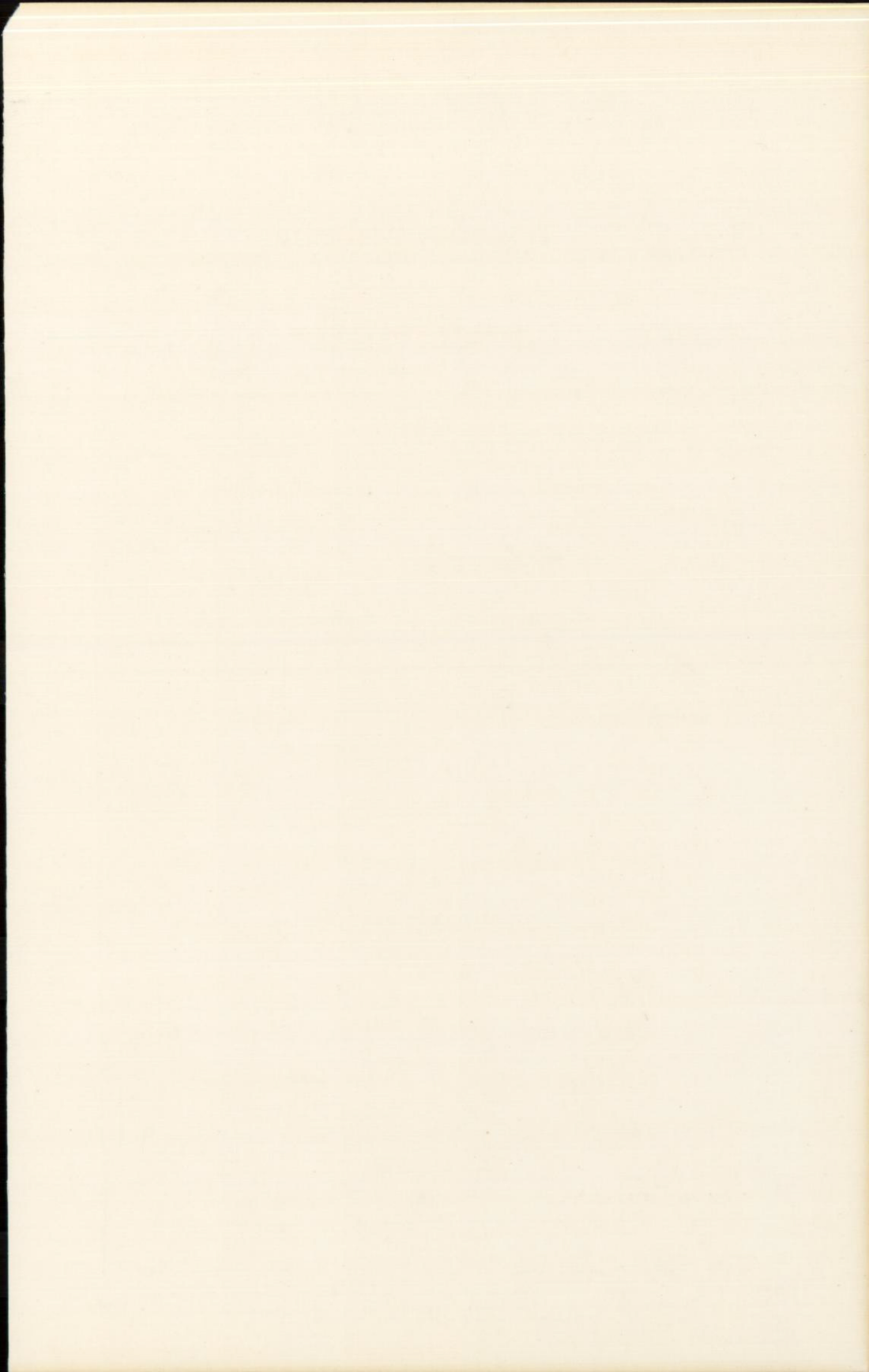
It is gratifying to present to you this annual report of your Company for the year 1961. The achievements of the year are set forth in the following pages and reflect the Company's progress and present position. Sales reached an all-time high and are a testimony to the excellent degree of consumer acceptance which has been earned by our products and which, beyond any doubt, is the greatest asset in our possession.

The sales of \$177,253,045 were \$7,002,140 higher than the sales of 1960, the previous record year. Net earnings in 1961 amounted to \$19,799,800 as compared with \$18,509,792 in 1960, equivalent to \$8.21 and \$7.69 per share in the respective years. Dividends paid totaled \$4.00 a share compared with \$3.70 in 1960, including year-end extras of \$1.00 in each year. You will recall that the regular quarterly dividend was increased in the third quarter of 1960 from 60 cents to 75 cents a share.

In last year's report we stated that our long-range objective of increasing the per capita consumption of our products was being aided by more favorable cocoa bean harvests and prospects of continuing improvement in the production of this basic commodity. The record of our sales justifies the optimism of a year ago. Average prices of our products for the year 1961 were lower than for 1960, and it is in order to point out that a greater percentage increase in quantity or unit sales was achieved than is indicated by the increase in dollar volume.

We are now midway in the first quarter of 1962 and, while there are too many variables to forecast sales and earnings for the year, we are again optimistic as we project our thinking into the coming months. The basic reason for this is a reiteration of our viewpoint that favorable commodity crops and cocoa bean prices will, in turn, bring wider usage of chocolate products and greater sales volume, both of which in long range benefit the producer of cocoa beans and the manufacturer alike. It is most important for the manufacturer to be able to sell his products at a price and size that will compete with non-chocolate confectionery and those substitutes for real chocolate which appear in sharp competition with us whenever the natural components of the cocoa bean can be supplanted with other substances at substantially lower cost.

It has been evident for several years that the facilities of our research and development laboratories have been overtaxed. Architectural drawings having been completed, the preparation of a new location within our plant has been started and the completion date is set for January 1, 1963.



We were saddened by the death on July 15, 1961, of Lester W. Majer, Vice President and Secretary, and a member of our Board of Directors. Mr. Majer entered the employ of the Company in 1927 and was elected to the Board of Directors in 1935, Secretary of the Corporation in 1945, and Vice President in 1956. During his many years of service, Mr. Majer played an important part in our growth and progress. He was expert in his knowledge of the commodity markets of importance to the Company and was a profound student of the cocoa bean market so often referred to as a vital factor in our business. The vacancies created by Mr. Majer's death were filled by Julian Hemphill, Director of Cocoa Bean Purchases, who was elected a member of the Board of Directors, and Richard L. Uhrich, former Assistant Secretary, who is now Secretary of the Corporation.

In 1961, after a thorough investigation of possible West Coast plant sites, a tract of land was purchased in Oakdale, Stanislaus County, California. Since this acquisition, pre-engineering studies also have been completed. On the basis of this information, the accumulated data is now being most carefully studied and the decisions for future action will be made as the year progresses.

On February 7, 1962, the Board of Directors adopted a resolution to recommend to the stockholders, for action at the annual meeting to be held on March 26, that the authorized number of shares of common stock be increased from the present 3,000,000 shares to 15,000,000 shares, and that each issued and outstanding share of common stock be split into five shares. It is believed that the split, if approved, will result in a market price for the stock suited to a wider circle of investors and should result in a broader distribution. At the same meeting the Board of Directors declared a quarterly dividend of 87½ cents per old share of common stock. Regular quarterly dividends in 1961 were 75 cents a share.

This letter to you would not be complete without special emphasis upon the interest, the loyalty, and the commendable efforts of our officers and our employees -- both men and women at all levels -- in their united determination to make their Company's operation successful. Our morale has never been higher, and on behalf of the Company I wish to offer the thanks and appreciation that are so well deserved.

Respectfully submitted,

S. F. HINKLE

Chairman of the Board
and President

February 22, 1962

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ASSETS

Cash	\$ 8,171,015
Short-term securities, at cost	24,185,741
Accounts receivable, less reserves of \$487,873	7,193,498
Inventories (Note 1)	52,842,118
Total current assets	<u>\$92,392,372</u>

Land	\$ 267,469	
Buildings and improvements	14,923,463	
Machinery and equipment.....	25,432,680	
Construction in progress	<u>2,762,334</u>	
	\$43,385,946	
Less—Reserves for depreciation.....	25,504,541	17,881,405

- (1) Inventories of cocoa beans, almonds and peanuts together with such other inventories as may be stated at cost under the "last-in, first-out" method. The remaining inventories are stated at market value.
- (2) Under the Officers and Key Employees Stock Option Plan approved in 1961, 34,595 shares were outstanding at December 31, 1961. Of these shares 34,595 were for outstanding shares (10,300 shares for \$84.00 per share and 24,295 shares for \$5.32 per share), and 5,329 shares were issued during the year, and the proceeds of \$289,750 were credited to the treasury.
- (3) The accounts of Hershey Chocolate of Canada Ltd., a wholly-owned subsidiary of the Company.

TE CORPORATION

subsidiary

STATEMENT - DECEMBER 31, 1961

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities		\$ 9,149,318
Reserve for state taxes.....		1,313,579
Reserve for Federal income tax	\$14,504,865	
Less — U. S. Government short-term securities	<u>14,504,865</u>	<u>—</u>
Total current liabilities		<u>\$10,462,897</u>

CAPITAL STOCK AND SURPLUS:

Common stock, without par value—		
Authorized 3,000,000 shares (Note 2);		
outstanding 2,411,147 shares	\$ 4,875,344	
Earned surplus	<u>95,495,229</u>	<u>100,370,573</u>
		<u>\$110,833,470</u>

Materials and wage costs included in finished goods and goods in process, are stated at the lower of average cost or market.

There were 88,104 authorized but unissued shares of common stock reserved for future options (at \$54.00 per share for 18,966 shares, \$55.00 to \$75.50 per share for 69,138 shares were for future options. Options for 4,849 shares were exercised and recorded in common stock account.

Options formed in 1961, are included in this consolidated balance sheet.

During the year our continuing program of plant improvement and replacement of equipment proceeded as planned. The initial expenditures for the Canadian plant were made early in 1961 and have been increasing as work progresses. The total outlay of funds for these purposes here and in Canada was \$3,800,000. Our Canadian plant, located in Smiths Falls, Ontario, has been taking form rapidly. During the early summer months chocolate manufacturing equipment will be installed and it is expected that production and marketing will begin in the later months of this year.

In the annual report for the year 1960 we called your attention to five of our newer products with the thought that your support would aid in their popular acceptance and sale. We have now added a family size one-pound canister of our Sweet Milk Cocoa, with which a delicious instantaneous beverage is made by dissolving it in hot water. Other new items of interest are a Milk Chocolate Almond Miniature bar and four varieties of bite-size Milk Chocolate Squares -- our plain, almond, peanut and "Krackel" -- attractively packaged in easy-to-open containers. We invite you to assist us in promoting these products in addition to our numerous items already on sale throughout the country. For the first time, at the beginning of last year's holiday season, we offered to you, as stockholders, three of our products which were suggested as Christmas gifts. Your response to this was encouraging to us and, without doubt, you will hear from us again toward the year's end.

In the late spring our facilities for receiving visitors to our plant were doubled and our new Visitors Department has become a conversation piece for those who have seen it. While our displays are primarily educational and informative, they are also rated highly for their appeal to those interested in the presentation of modern industry at work. During 1961 we welcomed approximately 300,000 visitors from all parts of the world and, if the trend continues, this number again will be exceeded in 1962 as it has for each consecutive year in the past.

The close of 1961 marked the termination of the active career of John J. Gallagher, Chairman of the Board of Directors. Mr. Gallagher's span of service with the Company began in 1911 and encompassed all but eight years since the beginning of activities in our community and all but six of our producing years. His earlier service in the Sales Division developed with and paralleled the progress of the Company. As General Sales Manager, beginning in 1946, and as Chairman of the Board of Directors, beginning in 1956, he has left upon our business countless indelible impressions which will be projected into the future and remain with us for many years to come.

AUDITORS' OPINION

*To the Board of Directors and Stockholders of
Hershey Chocolate Corporation:*

We have examined the consolidated balance sheet of Hershey Chocolate Corporation and subsidiary as of December 31, 1961, and the related statements of consolidated profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and earned surplus present fairly the financial position of Hershey Chocolate Corporation and subsidiary as of December 31, 1961, and the results of operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N. Y.,
February 7, 1962.

HERSHEY CHOCOLATE CORPORATION

**EXECUTIVE OFFICES AND MANUFACTURING PLANT
HERSHEY, PENNSYLVANIA**

WAREHOUSES

Atlanta, Ga.	Little Rock, Ark.
Billings, Mont.	Los Angeles, Cal.
Cambridge, Mass.	Memphis, Tenn.
Chicago, Ill.	Milwaukee, Wis.
Cincinnati, Ohio	New Orleans, La.
Dallas, Texas	North Bergen, N. J.
Davenport, Iowa	Oklahoma City, Okla.
Denver, Colo.	Omaha, Neb.
Detroit, Mich.	Pittsburgh, Pa.
East St. Louis, Ill.	Portland, Ore.
Houston, Texas	St. Paul, Minn.
Jacksonville, Fla.	Salt Lake City, Utah
Kansas City, Mo.	San Francisco, Cal.
Seattle, Wash.	

SALES OFFICES

In all principal cities in the United States

HERSHEY CHOCOLATE CORPORATION

and Subsidiary

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1961

PROFIT AND LOSS

NET SALES.....		\$177,253,045
COST OF GOODS SOLD, SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSES.....		<u>136,083,245</u>
		\$ 41,169,800
PROVISION FOR INCOME TAXES:		
Federal income tax	\$19,920,000	
Commonwealth of Pennsylvania income tax	<u>1,450,000</u>	<u>21,370,000</u>
Net profit for the year		<u>\$ 19,799,800</u>

NOTES:

- (1) Hershey Chocolate of Canada Ltd. has not yet commenced operations.
- (2) Costs and expenses for the year 1961 include provision for depreciation of plant and equipment in the amount of \$1,447,066.

EARNED SURPLUS

BALANCE AT DECEMBER 31, 1960	\$ 85,333,650
ADD -- Net profit for the year 1961	<u>19,799,800</u>
	\$105,133,450
DEDUCT -- Dividends, \$4.00 a share.....	<u>9,638,221</u>
BALANCE AT DECEMBER 31, 1961	<u>\$ 95,495,229</u>

HERSHEY'S PRODUCTS

FOR THE CONSUMER

MILK CHOCOLATE BARS	MILK CHOCOLATE KISSES
ALMOND BARS	BAKING CHOCOLATE
SEMI-SWEET BARS	DAINTIES
KRACKEL BARS	COCOA
MR. GOODBAR	CHOCOLATE SYRUP
MINIATURE BARS	INSTANT COCOA MIX
HERSHEY-ETS	HOT CHOCOLATE POWDER
MINT CHOCOLATE	CHOCOLATE FUDGE TOPPING
CHOCOLATE COVERED ALMONDS	SWEET MILK COCOA

FOR INDUSTRIAL USERS

(Confectionery, Baking, Ice Cream, and other Industries)

CHOCOLATE COATINGS	COCOA POWDER
UNSWEETENED CHOCOLATE	CHOCOLATE SYRUP
COCOA BUTTER	CHOCOLATE FUDGE

